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UNCLAS HARARE 002876

SIPDIS

STATE FOR AF/S AND AF/EX
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: [ECON](#) [EPET](#) [EFIN](#) [ETRD](#) [AMGT](#) [ZI](#)
SUBJECT: GOZ adds more price controls

¶1. Summary: The macroeconomically-challenged GOZ expanded its price freeze list on December 28. New controls will lead to further shortages and a burgeoning black market. End Summary.

¶2. Over the past months, the GOZ has rapidly expanded its price freeze. The latest list includes school uniforms, tracksuits, toothpaste and a host of other products. The GOZ is attempting to rein in inflation, which it now officially -- and very conservatively -- pegs at 175 percent. Unlike previous controls, this latest series fixes rates that are higher than current market prices. For that reason, it will take several months for Zimbabwe's inflation to lift market-determined prices to the officially-sanctioned maximums.

¶3. Comment: Price controls will continue to cause rather than alleviate high inflation. The GOZ is fixing the prices of every item it can think of while trying to clamp down on the repackaging game. (Bureaucrats at the Ministry of Industry and Trade must now approve each new product.) Unrealistically low price freezes have caused widespread shortages, making it unprofitable to produce maize, bread, sugar, meat, milk and cooking oil. We expect the list of "endangered" staples to grow as firms shut down unprofitable product lines. Low supply/heavy demand in the informal marketplace will soon push real inflation to hyper- or near hyper-levels.

Whitehead